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NATIONAL SECURITY COUNCIL

September 21, 1990

TO: CONDI RICE
KARL JACKSON
DAVID WELCH
MEG LUNDSAGER

FROM: TIM DEAL

Attached are the latest papers from Treasury regarding the financial needs of the front-line states and commitments obtained for those countries.

Attachment

SUCJ

to: Nicholas F. Brady

Department
of the Treasury

room: _____ date: 9/19/90

Departmental
Offices

Assistant Secretary for
International Affairs

Enclosed are tables showing our
la-test estimates of financial commitments
to the Gulf crisis.

cc: Robson
Mulford
Niehuss
Fall
Schotta
Templeman
Eichenberger
Dawson

SIGNED/CHARLES H. DALLARA

Charles H. Dallara

room 3430
phone 566-2269

SUMMARY: FINANCIAL ASSISTANCE For The Gulf Crisis:
COMMITMENTS TO DATE
(Millions of Dollars)

	1990			1991		
	Military	Economic	Total	Military	Economic	Total
<u>GULF</u>	<u>6000</u>	<u>6200</u>	<u>12200</u>	<u>300/mo</u>	<u>---</u>	<u>300/mo</u>
Saudi Arabia	2500	2700	5200	300/mo	---	300/mo
Kuwait	2500	2500	5000	---	---	---
UAE	1000	1000	2000	---	---	---
<u>EUROPE</u>	<u>1085</u>	<u>1380</u>	<u>2465</u>	<u>---</u>	<u>1500</u>	<u>1500</u>
EC	---	500	500	---	1500	1500
FRG Bilateral	1085	880	1965	---	---	---
Other Bilateral	---	---	---	---	---	---
<u>JAPAN</u>	<u>2000</u>	<u>600</u>	<u>2600</u>	<u>---</u>	<u>1400</u>	<u>1400</u>
<u>OTHER</u> ^{1/}	<u>---</u>	<u>100</u>	<u>100</u>	<u>---</u>	<u>---</u>	<u>---</u>
<u>TOTAL</u>	<u>9085</u>	<u>8280</u>	<u>17365</u>	<u>300/mo</u>	<u>2900</u>	<u>2900+</u>

1/ TAIWAN.

9/18/90

SOURCES AND USES OF FINANCIAL ASSISTANCE
(Millions of Dollars)

	Saudi Arabia	Kuwait	UAE	EC	FRG	UK	France	Italy	Canada	Japan	Korea	Taiwan	Total
<u>1990 (Sept-Dec.)</u>													
<u>Military</u>													
Requested	2500	2500	1000	—	1085	1/	1/	1/	N.D.	2000	150	N.D.	9235
Committed	2500 ^{2/}	2500	1000	—	1085					2000	—	—	9085
<u>Economic</u>													
Requested	2500	2500	1000	500 ^{4/}	880	100-110	100-110	145 ^{5/}	6/	600 ^{7/}	100	N.D.	8425-8445
Committed	2700	2500	1000	500	880	—	—	—	—	600	—	100	8280
Egypt	1500 ^{3/}	500			150								2150
Turkey	1200	300	300		580								2380
Jordan					150								150
<u>Total Committed</u>	5200	5000	2000	500 ^{4/}	1965	—	—	—	—	2600 ^{7/}	—	100	17365
<u>1991</u>													
<u>Military</u>													
Requested	300/mo	N.D.	N.D.	—	8/	8/	8/	8/	8/	8/	8/	8/	N.D.
Committed	300/mo												300/mo
<u>Economic</u>													
Requested	4-5000	5000+	2-2500 ^{9/}	1500 ^{4/}	—	260-300	260-300	N.D.	6/	1400 ^{7/}	100	N.D.	14,520-16,100
Committed	—	—	—	1500	—	—	—	—	—	1400	—	—	2900
<u>Total Committed</u>	300/mo	—	—	1500 ^{4/}	—	—	—	—	—	1400 ^{7/}	—	—	2900 +

N.D. = Not discussed

1/ Financial support not sought; instead additional military effort has been offered.

2/ Expected total about \$2.5 billion, of which \$1.2 - 1.6 in host country support in kind and assumed residual amount in cash.

3/ Disbursed \$200 million.

4/ EC contemplates ECU 1500 million or \$1989 at exchange rate on 9/17/90; timing as between 1990 and 1991 is not yet firm.

5/ USG may also seek bilateral economic assistance from other individual EC members.

6/ Notional figure for 1990 is about \$35 million and for 1991 about \$90 million.

7/ Total Japanese economic assistance commitment is \$2 billion; allocation between 1990 and 1991 is not yet clear but \$600/1400 split is possible.

8/ Financial support not sought.

9/ Notional amount; not discussed.

FINANCIAL NEEDS OF THE FRONT LINE STATES
(\$ Millions)

	<u>1990</u>			<u>1991</u>			<u>1990-1991</u>			
	<u>Turkey</u>	<u>Egypt</u>	<u>Jordan</u>	<u>Turkey</u>	<u>Egypt</u>	<u>Jordan</u>	<u>Turkey</u>	<u>Egypt</u>	<u>Jordan</u>	
<u>Merchandise Costs</u>										<u>Merchandise Costs</u>
Export Losses	400	20	140	600	30	230	1000	50	370	Export Losses
Higher Oil Bill	880	(300)	160	1760	(550)	320	2640	(850)	480	Higher Oil Bill
<u>Services Costs</u>										<u>Services Costs</u>
Transportation	210	80	100	380	170	250	590	250	350	Transportation
Contractor Fees	350	100	-	500	400	-	850	500	-	Contractor Fees
Worker Remittances	50	585	250	100	1450	500	150	2035	750	Worker Remittances
Refugee Repatriation	-	75	20	-	-	-	-	75	20	Refugee Repatriation
Tourism	110	350	275	500	750	475	610	1100	750	Tourism
Other Services	50	110	55	100	260	170	150	370	225	Other Services
<u>Capital Account Costs</u>										<u>Capital Account Costs</u>
Lost Debt Repayments	240	-	110	460	-	145	700	-	255	Lost Debt Repayments
<u>Domestic Costs</u>										<u>Domestic Costs</u>
Refugee Subsistence	50	200	100	-	50	20	50	250	120	Refugee Subsistence
Job Creation	-	125	100	-	620	500	-	745	600	Job Creation
<u>TOTAL COSTS</u>	<u>2340</u>	<u>1345</u>	<u>1310</u>	<u>4400</u>	<u>3180</u>	<u>2610</u>	<u>6740</u>	<u>4525</u>	<u>3920</u>	<u>TOTAL COSTS</u>
<u>COMBINED FRONT LINE COSTS</u>		4995			10190			15185		

FINANCIAL NEEDS OF FRONT-LINE STATES

Summary of Analytical Approach and Notes to Cost Table

- o These estimates of the crisis-related financial costs to the front-line states are limited to first round effects, or very proximate indirect effects. No change in the present military situation, and in its economic effects, is assumed during the period under review (through the end of 1991), and no discrete policy measures are assumed to have been taken nor to have any effects through 1991.
- o Estimates are based on: (1) published sources; (2) official estimates and data from the affected countries; (3) US Embassy analysis; (4) informal consultations with IMF and IBRD staff; and, (5) inter-agency analysis within the U.S. government. However, given the data limitations, these estimates are necessarily rough and in some cases involve judgmental adjustments.
- o Specifically identified financial losses include: (1) lost merchandise exports to Iraq and Kuwait; (2) higher oil bills from a higher oil price (assumed to have risen from \$19/bbl to \$31/bbl); (3) losses on transit and transportation earnings (e.g., pipeline, Suez Canal and trucking fees); (4) lost income from contractor fees for projects in Iraq and Kuwait; (5) lost worker remittances; (6) lost tourism earnings; (7) lost revenues from some miscellaneous services; and, (8) interruption of scheduled Iraqi debt service payments. In addition, the calculations include estimates of additional crisis-related outlays such as refugee transit and subsistence costs and job creation costs for returned expatriate workers.
- o Other potential costs can be identified, but have not been incorporated due in part to analytical problems. These would include, for example, export earnings shortfalls due to: a) generally slower demand growth in third countries; b) reduced competitiveness due to higher freight and related delivery costs; and, c) production bottlenecks arising in part from sanctions-related import constraints. Import costs could also be higher, reflecting higher insurance and freight costs. In addition, borrowing costs and capital outflows could potentially be higher due in part to risk concerns, and foreign direct investment inflows could be lower. Interrupted aid flows from Iraq and Kuwait have also not been included. Finally, no attempt has been made to gauge potential second-order macroeconomic and budgetary effects arising from lower demand and output.

TURKEY

MERCHANDISE:

Exports: Turkish exports to Iraq and Kuwait in 1987-89 were in the range of \$1.1 billion annually. However, there was a substantial fall-off in early 1990 because of Iraq's loss of creditworthiness. The estimate for 1990 includes a component of lost exports previously shipped through Iraq to third countries, mainly Saudi Arabia; no such loss is assumed for 1991. The figure for 1991 assumes that (interrupted) trade would have been at about 1/2 the level cited above, with formerly Iraq-bound goods partially switched to Iran and formerly Kuwait-bound goods lost entirely.

Oil Import Costs: Assumes a price of \$31 per barrel through 1991, with a pre-crisis base price assumption of \$19 per barrel. No import volume increase is assumed for 1991. Informal IMF staff estimates, reflecting a more detailed analysis, are lower for 1990 but appreciably higher for 1991.

SERVICES:

Transportation Fees: Total is based on an official Turkish estimate of lost pipeline and trucking fees and is in roughly the same range as other estimates. Trucking fees are derived from: land transportation of third country goods, especially the EC countries, through Turkey to Iraq and Kuwait; shipment of third country exports through Turkish ports to Iraq and Kuwait; and, transporting Iraqi oil to Turkish pipelines. These estimates are consistent with historical data.

Contractor Fees: Lost revenue from existing contracts of Turkish companies in Iraq; no new contracts are anticipated in 1991. (Contractor fee receipts from Iraq in 1988 and 1989 were reportedly \$330 and \$495 million, respectively.) The loss figure itself is based on an official survey of actual payment schedules.

Worker Remittances: IBRD informal staff estimate.

Tourism: Tourist income in 1988 and 1989 amounted to \$2.4 and \$2.6 billion, respectively. The figure for 1990 was expected to be about \$3 billion and the actual figure for the first six months of the year was \$1.4 billion. Recent information available to the government suggests that large cancellations are underway for hotel rooms and airline seats. The figure for 1990 assumes a 15% drop in tourist income during the last four months of the year. The 1991 estimate assumes a 12-15% loss on a projected base of \$3-3.5 billion.

Other Services: An official Turkish estimate of miscellaneous service income lost, including emigrant remittances (which we have excluded from this line and shown separately above) and lost income of Turkish banks on credit insurance on trade with Iraq and Kuwait.

CAPITAL:

Lost Debt Repayments: Scheduled payments on Iraqi debt to Turkey during 1990 and 1991, to have been received in oil, which is fungible. The aggregate loss estimated for the full 1990-91 period is broadly consistent with IMF/IBRD informal staff estimates.

DOMESTIC COSTS:

Refugee Subsistence: Assumes that approximately 50% of approximately 100,000 displaced Pakistanis and Bangladeshis transit through Turkey at a per capita cost of approximately \$100 per month. No costs are estimated for 1991. Expenses include: (1) local costs of temporary shelter, food and administrative expenses; and, (2) regional commercial losses from truckers' domestic expenditures in the Iraqi border and at Turkish ports.

MEMO: Although not shown in the table, the Turkish government expects to incur about \$1 billion in relocation expenditures for troops and materiel in 1990. It also estimates losses in foreign direct investment receipts of \$1150 million, not included in the table.

EGYPT

MERCHANDISE:

Exports: Expected losses of merchandise exports to Iraq and Kuwait, which have averaged \$34 million per year over the past three years.

Oil Exports: Expected increase in oil export income from assumed rise in oil price from \$19/bbl to \$31/bbl.

SERVICES:

Transportation Fees: Estimated losses of Suez Canal fees.

Contractor Fees: Based on official government estimated losses of \$500 million in 1990-91 in contractor fees, lost air fares and cancelled financing of projects by the Kuwaiti Fund and the Arab Fund in Kuwait.

Worker Remittances: Lost earnings from approximately 1 million expatriates presently employed in Iraq, Kuwait and Jordan. Estimates are broadly consistent with official government estimates, as well as IMF and IBRD informal staff estimates.

Refugee Repatriation: This is essentially the cost of moving approximately 500,000 displaced expatriates, or half of the total number of expatriates in the affected region. Expenses occur only during 1990.

Tourism: Estimate of lost income based on preliminary evidence from hospitality industry of cancellations and extremely low bookings entering the high season, as well as previous evidence of a particular sensitivity of Egyptian tourism to regional instability.

Other Services: This includes two elements: (1) estimated losses of social security receipts from abroad paid in foreign exchange; and, (2) estimated loss of telephone revenues paid in foreign exchange under a sharing agreement between Egypt and Iraq. Amounts have been roughly allocated between 1990 and 1991.

DOMESTIC COSTS:

Refugee Subsistence: Assumes 515,000 returning Egyptians, with subsistence expenses totalling \$500 per person, the bulk of which occurs in 1990.

Job Creation: Estimated cost of job creation for 515,000 Egyptians repatriated to Egypt at a cost per head of roughly \$1200. Most of the jobs are assumed to be created in 1991.

MEMO:

Not included in the table are estimated expenses for Egypt's participation in the multinational force.

JORDAN

MERCHANDISE:

Exports: Assumes total loss of exports to Iraq and Kuwait, annually in the range of \$170-235 million over the past three years.

SERVICES:

Transportation Fees: Official estimate of lost fees from transit trade between the port of Aqaba and Iraq.

Worker Remittances: Informal estimates by Fund staff.

Refugees: This is a rough estimate of the cost of transporting refugees, which would be limited to 1990.

Tourism: Informal estimates by Fund staff.

Other services: This item includes estimate losses from shipping and insurance income of about \$140 million and \$85 million for the entire period 1990-91, allocated between the two years.

CAPITAL:

Lost Debt Repayments: Informal Fund staff estimate for 1990. A somewhat larger figure for 1991 is estimated by the US Embassy in Amman.

DOMESTIC COSTS:

Job Creation: This is the cost of job creation for 235,000 Jordanians repatriated to Jordan at a cost per head of roughly \$2000, or 2 times per capita GNP. Most of the jobs are assumed to be created in 1991.

MEMO:

No loss has been included in the table for the \$600 million in grants from other Arab countries which was to have been received in 1990, of which only \$285 million had been received through the first seven months of the year.

Gulf Crisis Financial Coordination Group
Working Committee Meeting 10/2/90

ML

10/3/90

CF Tim

Chaired by Dallara, McAllister

I. IMF/World Bank Presentation

- o Erb went through numbers distributed to group on needs of front line states. David Boch endorsed numbers.
- o IMF and World Bank reported on activities in front line states.
- o Dallara made point that efforts of this group were focused on immediate needs of these countries, which was distinct from ongoing relationships of these countries with Fund and Bank (in other words - no economic conditionality for time being).
- o Questions from group on numbers centered on U.S. numbers on costs of job creation for workers returning from Iraq and Kuwait. British and others will speak with IMF and World Bank staff directly about these and other numbers.
 - o British wanted range of financing needs for these countries.
 - o Several others felt that shouldn't worry about being too specific - can never achieve precision.
 - o Germans seemed to want an actual number.
 - o Kuwaiti wanted to look at entire financing needs of countries - including financing gaps pre-dating 8/2/90.
- o Dallara summed up - stay away from scenarios; recall that this is a political process that needs a technical base but that technical work is not driving this exercise. Have another meeting next Tuesday to finalize numbers prior to Friday's Coordination Group meeting.

II. Commitments/Disbursements for 1990

- o McAllister took over - made point that we don't have a good tally of what donor countries are providing to front line states. He suggested that all participants provide State/Treasury with the following:
 - o Dollar amounts of aid being provided.
 - o To which countries.

- o The nature of the aid - grant, loan, import financing, etc.
- o Time frame for disbursement.
- o Kuwaiti raised issue of appropriate burden sharing on the part of donor countries. Others felt that this issue belonged with the Coordination Group.
- o Mixed views around table - U.K. said could provide, French had to check with Paris, Saudi Arabia thought would be helpful, Japan said coordination group should do.
- o Not sure will get much by end of week - some participants may wait until Coordination Group endorses this.

III. 1991

- o McAllister made point that we need to begin thinking about what we do in 1991 and that this will be raised at next Coordination Group meeting.

IV. Summation - Next Meeting

- o The Working Committee meets again next Tuesday at 3:00 in 4121 Treasury.
- o Use week to consult with IMF/Bank on numbers.
- o Try to send data on assistance by Friday.
- o Call Treasury if other items need to be put on agenda.

AGENDA

Gulf Crisis Financial Coordination Working Committee

Tuesday, October 2, 1990

3:00 PM

Treasury Department

1. IMF/World Bank Presentation
2. Exchange of Views on Commitments/Disbursements for 1990
3. Exchange of Views on 1991
4. Preparation of Next Meeting of Gulf Crisis Financial Coordination Group

Incremental Financial ImpactExplanatory Notes

Note: The calculations in the attached table were made by Fund and Bank staff at the request of the U.S. Government, within the parameters outlined below. The purpose of the calculations is to provide an estimate of the potential direct financial impact on the three countries of the increase in oil prices, the disruption of economic ties in the region and the effects of economic sanctions. At this stage, the role of the Fund and the Bank staff has been limited to a preliminary calculation of the potential impact on the basis of specified assumptions (see below and in the detailed country notes to the tables).

-- The following broad assumptions were used for making the calculations.

-- Only incremental financial needs are shown in the table; underlying pre-crisis financing needs are not included.

-- First round or very proximate second round effects only are taken into account.

-- No reduction in financing needs from adjustment effects of new policy actions is taken into account.

-- The financial impact in 1990 is essentially extrapolated throughout 1991.

-- An oil price of \$31/bbl is used for 1990/91. For illustrative purposes, two alternative prices and their effects on financing needs are shown as memo items to the table: a lower price of \$25/bbl and a higher price of \$35/bbl.

-- A number of other potential costs are not included: (1) export shortfalls due to: slower demand growth in third countries, loss of export competitiveness because of higher freight and insurance costs due to higher risk premiums and export production bottlenecks arising from economic disruptions; (2) higher freight and insurance costs in the services accounts; (3) higher interest payments on variable debt if world interest rates rise as a result of the inflationary effects of higher oil prices; (4) any adverse impact on foreign direct investment inflows due to higher uncertainties; (5) lost aid inflows from Kuwait; and (6) a number of country-specific costs (e.g. military relocation expenses in Turkey and the cost to Egypt of participation in the Gulf multinational forces. It is also recognized that there could be potential offsets either from more favorable than expected economic circumstances or from redirection of trade and factor flows.

October 2, 1990

Estimates of Incremental Financial Impact of Middle East Crisis 1/

(In millions of U.S. dollars)

	1990			1991			1990-91			
	Turkey	Egypt	Jordan	Turkey	Egypt	Jordan	Turkey	Egypt	Jordan	
<u>Merchandise Costs</u>										<u>Merchandise Costs</u>
Export losses	270	20	285	650	30	535	920	50	820	Export losses
Higher oil bill	855	-395	125	2000	-890	295	2855	-1285	420	Higher oil bill
<u>Service Costs</u>										<u>Service Costs</u>
Transportation	150	100	100	375	250	250	525	350	350	Transportation
Contractor fees	50	100		125	250		175	350	0	Contractor fees
Workers remittances	50	600	200	125	1300	500	175	1900	700	Workers remittances
Tourism	150	200	275	360	400	475	510	600	750	Tourism
Other services	0	100	50	0	240	135	0	340	185	Other services
<u>Capital Account Costs</u>										<u>Capital Account Costs</u>
Lost debt repayments	100	--	110	600	--	145	700	--	255	Lost debt repayments
<u>Other Costs 2/</u>	50	400	220	--	670	595	50	1070	815	<u>Other Costs 2/</u>
Refugee repatriation	0	75	20	--	--	--	--	75	20	Refugee repatriation
Refugee subsistence	50	200	100	--	50	20	50	250	120	Refugee subsistence
Job creation	0	125	100	--	620	575	--	745	675	Job creation
Total with oil at \$31/BBL Total Ann'l	1675	1125	1365	4235	2250	2930	5910	3375	4295	Total with oil at \$31/BBL Total Ann'l
		4165			9415			13580		
Total with oil at \$25/BBL Total Ann'l	1250	1305	1302	3235	2680	2783	4485	3985	4085	Total with oil at \$25/BBL Total Ann'l
		3857			5698			12555		
Total with oil at \$35/BBL Total Ann'l	1965	995	1405	4900	1960	3030	6865	2955	4435	Total with oil at \$35/BBL Total Ann'l
		4365			9890			14255		

1/ On the basis of assumptions provided by U.S. authorities.

2/ Costs related to refugee repatriation, resettlement and job creation. Estimate is from United States Government. Fund/Bank staff are not in a position at this stage to provide their own estimate.

Turkey--Notes to Table

Higher Oil Bill:

1. Crude oil

During January-July 1990, Turkey's crude oil import bill amounted to US\$1,510.5 million. During January-June 1990, the import volume was 70.5 million barrels at a cost of US\$1,301.2 million, i.e., the average price was US\$18.5 per barrel. Assuming that this was also the average price for imports in July, the import volume in July can be estimated at 11.3 million barrels. The total import volume before the crisis was thus 81.8 million barrels. For the year as a whole, the import volume was estimated at 20 million tons or 147.4 million barrels. The import volume for the period August-December 1990 can thus be estimated at 69.8 million barrels. Assuming that this would have been imported at an average price of US\$19 per barrel in the absence of the crisis, the additional costs for 1990 would be US\$785 million at a price of US\$31 per barrel, US\$395 million at US\$25 per barrel, and US\$1,050 million at US\$35 per barrel.

For 1991, assuming an unchanged volume of 147.4 million barrels and a price of US\$19 per barrel in the absence of the oil crisis, the additional costs would be US\$1,770 million at a price of US\$31 per barrel, US\$885 million, at US\$25 per barrel, and US\$2,360 million at US\$35 per barrel.

2. Oil products

It is assumed that net imports of oil products in 1990 will be 19.0 million barrels. The import volume for the period August-December 1990 is assumed to be 6 million barrels. Assuming the same price as for crude oil, the additional costs for the remainder of 1990 would thus be US\$70 million at US\$31 per barrel, US\$35 million at US\$25 per barrel, and US\$95 million at US\$35 per barrel.

For 1991, assuming unchanged volume compared with 1990, the additional costs would be US\$230 million at US\$31 per barrel, US\$115 million at US\$25 per barrel, and US\$305 million at US\$35 per barrel.

3. Total additional oil bill

	1990	1991
	<u>(In millions of U.S. dollars)</u>	
\$31 per barrel	885	2,000
\$25 per barrel	430	1,000
\$35 per barrel	1,145	2,665

Export losses:

In 1989, exports to Iraq and Kuwait were US\$445 million and US\$168 million respectively. In the first five months of 1990, exports to Iraq were 2 percent and exports to Kuwait 16 percent higher than in the same period of 1989. Assuming the same percentage increases for the remainder of the year, exports to Iraq will amount to US\$455 million and those to Kuwait to US\$195 million. The total loss of exports to these two markets would thus for five months be US\$270 million and for the full year US\$650 million.

Tourism:

In the original estimate for 1990, tourism receipts were expected to increase by 17 ½ percent. In the first half of 1990, however, such receipts were up by 47 percent, or an excess of 29 ½ percent. Even before the Middle East crisis, it would have been unrealistic to assume that this excess could have continued for the second half of the year. Assume that an excess of 10 percentage points (i.e., about 27 ½ percent increase year-on-year) for the second half of the year would have been possible. Tourism revenue for the year as a whole would then have amounted to US\$3,450 million. The current Turkish estimate taking into account the effects of the Middle East crisis is US\$3,300 million in tourism receipts. The loss for the last five months of 1990 can thus be estimated as US\$150 million. On a full year basis, i.e., for 1991, the loss will then be US\$360 million (i.e., assuming that there would be no underlying increase in tourism receipts in 1991).

Workers' remittances:

It is assumed that workers' remittances from Iraq and Kuwait on an annual basis amount to US\$60 million (6,000 workers earning on average US\$10,000 per year and remitting it all). For five months of 1990 this is equivalent to US\$25 million. About the same amount of loss of workers' remittances is assumed from other countries.

Contractors fees:

It is assumed that the profit rate on the outstanding volume of contracting business in Iraq of US\$2 billion is 25 percent and that this would be recouped over four years. The figure for 1990 will then be US\$50 million and for 1991 US\$125 million.

Transportation:

1. Pipeline royalties

For 1990, the loss is estimated at US\$100 million and for 1991 US\$250 million.

2. Transit trade and transportation

For 1989, net transit receipts amounted to US\$70 million and shipment receipts to US\$800 million. It is assumed that about 15 percent of such receipts would relate to Iraq and Kuwait and the full year loss would thus be US\$125 million and prorated for 1990 US\$50 million.

Lost debt repayments:

Estimates provided by Turkish authorities.

Egypt--Notes to Table

Oil exports:

The estimated increase in net oil exports amounts to US\$395 million in 1990 comprising an increase in (i) crude oil exports of US\$321 million; (ii) bunker exports of US\$37 million; (iii) exports of refined products of US\$109 million; and (iv) imports of refined products of US\$72 million. It was assumed that crude oil prices rise by US\$12 to US\$31 per barrel and that refined product prices increase proportionately. Net oil exports would be US\$180 million lower at an oil price of US\$25 a barrel and US\$130 million higher in case the oil price rises to US\$35 a barrel.

The estimated increase in net oil exports amounts to US\$890 million in 1991 consisting of (i) US\$712 million in crude oil exports; (ii) US\$88 million in bunker exports; (iii) US\$263 million in exports of refined products; and (iv) US\$173 million in imports of refined products. Net oil exports would be US\$430 million lower at an oil price of US\$25 a barrel and US\$290 million higher at an oil price of US\$35 a barrel.

Transportation:

Receipts from transportation are expected to decline by 17 percent mainly on account of lower revenue of the Suez Canal Company both in 1990 and 1991.

Contractor fees

Estimates on contractor fees are based on information provided by the U.S. Treasury.

Worker remittances

Worker remittances decline by US\$600 million in 1990 and by US\$1300 million in 1991. The decline in 1991 is less pronounced than in earlier estimates based on the assumption that Egyptian workers may replace other nationalities in some of the Gulf countries.

Tourism

Tourism receipts are expected to drop by 45 percent during August-December 1990 and 35 percent in 1991.

Other services

Estimates on other services were based on information provided by the U.S. Treasury mainly in regard to telephone services and social security receipts.

Jordan--Notes to Table

Exports losses:

Based on the U.S. assumption that no alternative markets could be found for exports to Iraq and Kuwait. In addition to loss of exports to Iraq and Kuwait, exports of phosphates, fertilizer, and potash (mostly marketed in the Far East) are assumed to decline by 30 percent due to shipping difficulties at the port of Aqaba and higher insurance premia. The Fund/Bank staffs believe that alternative markets can be found for 30 percent of exports to Iraq and Kuwait. In that case, the export losses to Jordan would be lower than is shown in the table and would amount to US\$225 million in 1990, US\$425 million in 1991 and US\$650 million in 1990-91.

Higher oil bill:

If oil prices increase by US\$6 per barrel starting August 1, 1990, the increase in the oil bill would be US\$62 million in 1990 and US\$148 million in 1991. Alternatively, if oil prices were to increase by US\$16 per barrel starting August 1, 1990, the increase in the oil bill will be US\$165 million in 1990 and US\$395 million in 1991. Annual imports are estimated at 24.66 million barrels.

Worker remittances:

In addition to the loss of remittance receipts from Kuwait (estimated at about US\$190 million annually), remittance receipts from Saudi Arabia are assumed to decline by 50 percent.

Tourism:

Receipts from tourism are assumed to decline by 70 percent on an annual basis.

Other services:

Other services (including transportation) are assumed to decline by about 40 percent on an annual basis. Transportation costs had not been estimated separately by the Fund/Bank staff.

Other costs:

The Fund/Bank staffs are not in a position to provide estimates on refugee-related costs. It should be noted, however, that the U.S. estimate of US\$575 million for job creation in 1991 is equivalent to about 13 percent of 1989 GDP.

GULF CRISIS FINANCIAL COORDINATION GROUP
Department of the Treasury
Room 4121
Wednesday, September 26, 1990

<u>COUNTRY</u>	<u>NAME & TITLE</u>	<u>TELEPHONE</u>	<u>FAX</u>
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	Timothy Deal Special Assistant to the President, NSC	395-3622	395-6926 (voice contact)
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	Richard Pratt Counsellor British Embassy		
WORLD BANK	Moeen Qureshi Senior Vice President	477-3665	

Under Sec. Munford
to: Asst Sec Dallas

Department
of the Treasury

room: _____ date: 9/28/90

Office of the
Assistant Secretary for
International Affairs


Gulf Crisis: Commitments

Latest updates of tables

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Fall

revised
10/10/90


Donald C. Templeman
Director, Office of
Industrial Nations
and Global Analyses

room 5050
phone 566-8034

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Table	Re: Commitments of Economic Assistance to Front-Line States (2 pp.)	9/28/90	(b)(1)	C

Collection:

Record Group: Bush Presidential Records
Office: National Security Council
Series: Lundsager, Meg
Subseries: Subject File
WHORM Cat.:
File Location: GCFCG (Gulf Crisis Financial Coordination Group) [2]

Document Declassified
(Document Follows)
 By ML (NLGB) on 11-9-07

Date Closed:	11/9/2007	OA/ID Number:	CF00756-009
FOIA/SYS Case #:	1998-0099-F	Appeal Case #:	
Re-review Case #:		Appeal Disposition:	
P-2/P-5 Review Case #:		Disposition Date:	
AR Case #:	98-0099-F/5(296)	MR Case #:	
AR Disposition:	Released in Full	MR Disposition:	
AR Disposition Date:	2/14/2000	MR Disposition Date:	

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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COMMITMENTS OF ECONOMIC ASSISTANCE TO FRONT-LINE STATES
(Millions of Dollars)

	<u>1990</u>	<u>1991</u>	<u>1990-91</u>
<u>GULF STATES</u>	<u>6200</u>	<u>-</u>	<u>6200</u>
Saudi Arabia	2700	-	2700
Kuwait	2500	-	2500
UAE	1000	-	1000
Other	-	-	-
 <u>EUROPE</u>	 <u>1465</u>	 <u>1475</u>	 <u>2940</u>
EC ^{1/}	490	1475	1965
Germany Bilateral ^{2/}	820	-	820
Other Bilateral	-	-	-
Italy ^{3/}	155	-	155
 <u>CANADA</u>	 -	 -	 -
 <u>JAPAN</u> ^{4/}	 600	 1400	 2000
 <u>KOREA</u>	 95	 75	 170
 <u>TAIWAN</u>	 <u>30</u>	 <u>-</u>	 <u>30</u>
	8390	2950	11340

^{1/} ECU 1500 million converted at about 1 ECU = \$1.31.

^{2/} DM 1285 million converted at about \$1.00 = DM 1.57.

^{3/} Lira 180 billion converted at about \$1.00 = lira 1170.

^{4/} It is possible that \$150 million of Japanese \$1400 million in fast disbursing assistance committed for 1991 will be disbursed in 1990.

9/28/90

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98-0099F
GF 5/11/00

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ALLOCATION OF ECONOMIC ASSISTANCE TO FRONTLINE STATES
(Millions of Dollars)

<u>1990:</u>	<u>TURKEY</u>	<u>EGYPT</u>	<u>JORDAN</u>	<u>UNALLOC.</u>	<u>TOTAL</u>
<u>GULF</u>	<u>1800</u>	<u>2000</u>	<u>--</u>	<u>2400</u>	<u>6200</u>
Saudi Arabia	1200	1500 <u>1/</u>	--	--	2700
Kuwait	300	500 <u>2/</u>	--	1700	2500
UAE	300	--	--	700	1000
Other	--	--	--	--	--
<u>EUROPE</u>	<u>70</u>	<u>620</u>	<u>130</u>	<u>645</u>	<u>1465</u>
EC	--	--	--	490	490 <u>3/</u>
FRG Bilateral	70	620	130	--	820 <u>4/</u>
Italy	--	--	--	155	155 <u>5/</u>
<u>JAPAN 6/</u>	<u>200</u>	<u>300</u>	<u>100</u>	<u>--</u>	<u>600</u>
<u>OTHER</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>125</u>	<u>125</u>
Canada	--	--	--	--	--
Korea	--	--	--	95	95
Taiwan	--	--	--	30	30
<u>TOTAL COMMITMENTS</u>	<u>2070</u>	<u>2920</u>	<u>230</u>	<u>3170</u>	<u>8390</u>
<u>TOTAL NEEDS 1990</u>	<u>2160</u>	<u>1185</u>	<u>1310</u>	<u>--</u>	<u>4655</u>
Shortfall(-) or Excess(+)	-90	1735	-1080	3170	3735

<u>1991:</u>					
Needs:	4740	2555	2685	--	9980
<u>Commitments:</u>	<u>100</u>	<u>100</u>	<u>150</u>	<u>2600</u>	<u>2950</u>
EC	--	--	--	1075	1475 <u>3/</u>
Japan	100	100	150	1050	1400
Korea	--	--	--	75	75
<u>TOTAL 1990-91:</u>					
Needs	6900	3740	3995	--	14635
Commitments	2170	3020	380	5770	11340
Shortfall(-) or Excess(+)	-4730	-720	-3615	5770	-3295

MEMO: East Europe Needs (with continued USSR oil subsidies) 3270
Asia/No. Africa Needs 7/ 5035

- 1/ Disbursed to date \$200 million.
2/ Disbursed to date \$250 million.
3/ ECU 1500 million converted at about 1 ECU = \$1.31.
4/ DM 1285 million converted at about \$1.00 = DM 1.57.
5/ Lira 180 billion converted at about \$1.00 = lira 1170.
6/ It is possible that \$150 million of Japanese \$1400 million in fast disbursing assistance committed for 1991 will be disbursed in 1990.
7/ Includes: Bangladesh, Morocco, Pakistan, Philippines.

9/28/90

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Withdrawal/Redaction Sheet

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Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02. Briefing Paper	Economic Responses to the Iraqi Invasion and Implementation of Sanctions (3 pp.)	8/24/90	(b)(1)	C

Collection:

Record Group: Bush Presidential Records
Office: National Security Council
Series: Lundsager, Meg
Subseries: Subject File
WHORM Cat.:
File Location: GCFCG (Gulf Crisis Financial Coordination Group) [2]

Document Declassified
 (Document Follows)
 By *ML* (NLGB) on 11.9.07

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Re-review Case #:		Appeal Disposition:	
P-2/P-5 Review Case #:		Disposition Date:	
AR Case #:	98-0099-F/5(297)	MR Case #:	
AR Disposition:	Released in Full	MR Disposition:	
AR Disposition Date:	5/15/2001	MR Disposition Date:	

RESTRICTION CODES

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Key Stacker
647-9497

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566-8243 George
566-2120

8/24/90

Sat. 3:00 drafts to Key/George

Treas. for
566-8066

Economic Responses to the Iraqi Invasion and
Implementation of Sanctions

Work Program

The following work program is designed to: (a) evaluate the economic adjustment and financial needs of countries hardest hit by the Iraqi invasion of Kuwait and subsequent implementation of UN sanctions against Iraq; and (b) assess possible bilateral and multilateral policy responses, including identifying potential donors.

For the purpose of this exercise, countries should be divided into the "front line" states (Egypt, Turkey and Jordan), Eastern Europe and others. It will examine the economic responses of supporters and beneficiaries in the context of adherence to sanctions.

The analysis should identify the costs/financial burdens arising directly from recent events. Policy recommendations should distinguish between measures to address emergency financial and political requirements, and those whose implementation and potential effects are of a longer-term character.

The deadline for completion of all work is Monday, August 27. This should include specific responses to the assigned tasks as well as an overview executive summary, highlighting policy recommendations for the President's review on August 28.

I. Assessment of Financial Needs by Country Category

A. Egypt, Turkey and Jordan

1. Direct Economic Costs from Iraqi Invasion

	<u>1990 (remainder)</u>	<u>1991</u>
a. lost exports to Iraq and Kuwait ¹		
b. increased (oil) import costs		
c. lost transit revenues		
d. lost remittances		

DECLASSIFIED
PER E.O. 12958
JG P, 8/9/01
Case No. 98-0099-F

¹ Include lost services, e.g., past revenues, construction tourism

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e. additional costs of
military participation
in multinational force

3/2/80 10a/mrk

f. emergency assistance needs
(refugee relief costs)

2. Non-crisis related Economic and Financial Issues

3. Total Additional Costs

B. Other Critically Affected States (Calculate direct costs from lost exports, increased imports, and lost remittances plus pre-existing external financial requirement by following country categories.)

1. Frontline

- a. Egypt
- b. Turkey
- c. Jordan

2. Eastern Europe

- a. Poland
- b. Hungary
- c. Czechoslovakia

3. Others

- a. Morocco
- b. Philippines
- c. India
- d. Pakistan
- e. ~~Bangladesh~~

II. Assessment of U.S. Costs of Military Response

A. Force Structure Costs

JoD

B. Incremental Costs (including higher fuel prices)

III. Possible Policy Responses, Including Conditionality

A. Emergency Relief

1. Potential Donors (assess capabilities of donors to finance emergency relief efforts, taking into account, for example, windfall revenues for Gulf states because of oil price rise and special vulnerabilities of those countries such as Japan that are highly dependent on Middle East oil and therefore should provide assistance commensurate with those dependencies.)

*Typ, Tan, Kor.
Bur, EC.
SA, K, UAE*

*AID
HMR*

*6477950 Dick Marking
ODP, Molly O'Neil X9453*

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- 3 -

a. Gulf States

b. Others

2. Bilateral

AID

a. Direct Assistance

b. Contributions in Kind (e.g., in-country host nation support, airlift/sealift of military forces and material, fuel, energy subsidies (USSR to Eastern Europe))

B. Longer-Term Relief

Treasury

1. Debt and Central/Commercial Bank Issues

2. Multilateral (IMF, IBRD, other IFIs)

3. Preferential Trade Possibilities (e.g., textiles, expanded market access)

4. Countries' Economic Adjustment Responses

IV. Coordination of Support (matching donors and recipients)

Burden sharing

V. Implementing Strategy: Approaches to Potential Supporters and Beneficiaries

VI. Executive Summary

done

B. Brief analysis

Pol. Options - globally appl. etc.

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10/2/90

COMPARATIVE ESTIMATES

	1990		TURKEY		1990-1991	
	USG	FUND/BANK	USG	FUND/BANK	USG	FUND/BANK
MERCHANDISE COSTS						

EXPORT LOSSES	400	270	600	650	1000	920
HIGHER OIL BILL	700	855	2100	2000	2800	2855
SERVICE COSTS						

TRANSPORTATION	210	150	380	375	590	525
CONTRACTOR FEES	350	50	500	125	850	175
WORKER REMIT	50	50	100	125	150	175
TOURISM	110	150	500	360	610	510
OTHER SERVICES	50	0	100	0	150	0
CAPITAL ACCOUNT COSTS						

LOST DEBT REPMT.	240	100	460	600	700	700
OTHER COSTS	50	50			50	50

REFUGEE REPATRI.						
REFUGEE SUBSIS	50	50			50	50
JOB CREAT.						

TOTAL	2160	1675	4740	4235	6900	5910

	1990		JORDAN		1990-1991	
	USG	FUND/BANK	USG	FUND/BANK	USG	FUND/BANK
MERCHANDISE COSTS						
EXPORT LOSSES	140	285	230	535	370	820
HIGHER OIL BILL	160	125	320	295	480	420
SERVICE COSTS						
TRANSPORTATION	100	100	250	250	350	350
CONTRACTOR FEES					0	0
WORKER REMIT	250	200	500	500	750	700
TOURISM	275	275	475	475	750	750
OTHER SERVICES	55	50	170	135	225	185
CAPITAL ACCOUNT COSTS						
LOST DEBT REPMT.	110	110	145	145	255	255
OTHER COSTS	220	220	595	595	815	815
REFUGEE REPATRI	20	20				
REFUGEE SUBSID	100	100	20	20	120	120
JOB CREAT.	100	100	575	575	675	675
TOTAL	1310	1365	2685	2930	3995	4295

	EGYPT					
	1990		1991		1990-1991	
	USG	FUND/BANK	USG	FUND/BANK	USG	FUND/BANK
MERCHANDISE COSTS						
EXPORT LOSSES	20	20	30	30	50	50
HIGHER OIL BILL	-275	-395	-825	-890	-1100	-1285
SERVICE COSTS						
TRANSPORTATION	80	100	170	250	250	350
CONTRACTOR FEES	100	100	300	250	400	350
WORKER REMIT	585	600	1450	1300	2035	1900
TOURISM	165	200	500	400	665	600
OTHER SERVICES	110	100	260	240	370	340
CAPITAL ACCOUNT COSTS						
LOST DEBT REPMT.						
OTHER COSTS	400	400	670	670	1070	1070
REFUGEE REPATRI	75	75				
REFUGEE SUBSID	200	200	50	50	250	250
JOB CREAT.	125	125	620	620	745	745
TOTAL	1185	1125	2555	2250	3740	3375

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FRONT LINE ASSISTANCE ACT

1. Description. To provide short-term trade concessions to the states surrounding Iraq and Kuwait during the period of the UN-imposed trade embargo. Our overall goal would be to absorb, to the extent possible, lost trade for those countries thereby providing material assistance during this conceivably drawn-out crisis. Possible trade actions would be a relaxation of all textile quotas, expanded steel quota for Turkey, duty-free treatment for front-line goods previously sold to Iraq, and suspension of E.O. 12613 which prevents import of Iranian goods. (On a separate track we should seek financial assistance from the legitimate Kuwaiti Government and the Saudis to subsidize oil imports for Jordan and Turkey.)

2. Method of Implementation. The President could act under the International Emergency Economic Powers Act. The President has already invoked IEEPA to declare sanctions and a trade embargo on Iraq and Kuwait. He could take these further actions under Section 1702 (a)(1)(B), granting the President the right to "regulate ... importation or exportation of, or dealing in ... any property in which any foreign country ... has any interest; by any person, or with respect to any property, subject to the jurisdiction of the United States."

3. Rationale. The trade embargo is the most certain method of forcing concessions from Iraq without resort to armed conflict and loss of life. To be effective, the policy requires the cooperation of the bordering states. Yet two in particular -- Jordan and Turkey -- stand to suffer greatly in a protracted embargo, with instability in Jordan a real possibility. In addition, Iran could represent a significant lifeline to Iraq. Syria has not had warm relations with Iraq or the U.S. and there is little substantial trade between the two parties to be disrupted. But Damascus is sending troops to support the Saudis and a concession from the U.S. would help ensure cooperation and convergence of purpose.

The public justification is clear enough -- citing Saudi Arabia's willingness to boost oil production in the face of Iraqi threats, we must also make certain concessions to help struggling, front-line countries. Better to make trade sacrifices than human ones. Many U.S. companies have already paid a price through the direct sanctions; these actions should be seen as also necessary for the country. We would commit to making these concessions only for the duration of the UN-mandated embargo, so they are not permanent. We could also cap certain benefits (such as textile concessions) to the value of lost trade between the front-line state and Iraq, if need be. After the UN has lifted the sanctions, we would review our own unilateral concessions and decide whether to keep, modify, or rescind them.

4. As specified below, the USTR and other agencies of the U.S. Government would extend benefits to the countries bordering Iraq and Kuwait.

Turkey

Iraq was Turkey's third largest trading partner last year, on Turkish exports of \$450 million.

Proposal

- o Expand Turkish steel quota by amount lost to Iraq
- o Textiles -- no calls for duration
Quotas may be exceeded up to the amount of lost textiles trade to Iraq/Kuwait

Syria

Proposal

- o Qualify for agricultural credit programs
- o Textiles -- no calls for duration
Quotas may be exceeded up to the amount of lost textiles trade to Iraq/Kuwait

Jordan

Jordan is deeply entwined with Iraq, sending 70% of its industrial exports to Iraq and 25% of total exports there. The recent protocol would have been worth \$330 million in Jordanian goods and services.

Proposal

- o CBI treatment for goods
- o Textiles -- no calls for duration
Quotas may be exceeded up to the amount of lost textiles trade to Iraq/Kuwait

Saudi Arabia

nothing

Iran

Hussein has tried to curry favor through peace concessions. The Iranian stance on UN sanctions has been ambiguous.(true?)

Proposal

- o Suspend E.O. 12613, which banned imports from Iran.
- o Direct Commerce to consider export licences with presumption of approval, except for munitions list items or items destined for the Iranian military
- o Qualify for agricultural credit programs
- o Textiles -- no calls for duration
Quotas may be exceeded up to the amount of lost textiles trade to Iraq/Kuwait

09/24/90

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TO: Mr. Tim Deal
NSC

ADDRESSEE'S FAX NUMBER 395-6926

ADDRESSEE'S CONFIRMATION NUMBER 395-3622

FROM Mark Collins

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COMMENTS/SPECIAL INSTRUCTIONS:

September 22, 1990

GULF CRISIS FINANCIAL COORDINATION GROUPU.S. OBJECTIVES

- o Reinforce commitment to U.S. policy objectives in the Gulf crisis.
- o Maintain and support U.N. economic sanctions toward Iraq.
- o Demonstrate continued U.S. leadership in mobilizing financial assistance for front line states (Egypt, Turkey, and Jordan) and other countries seriously affected by the Gulf crisis.
- o Establish a loose coordinating process to secure appropriate responsibility-sharing among creditors donors, encourage an adequate distribution of assistance to individual front line states, and -- for the medium-term -- support economic policy reform where appropriate.
- o The process must ensure that decision-making remains firmly in the hands of creditor governments, not international financial institutions (IFIs). The IFIs should be asked only to provide analytical and technical advice.
- o Provide a stream-lined, efficient coordinating process, without a new bureaucracy, by having officials of participating governments work closely in Washington, thus enabling a continuing lead role by the USG.
- o Avoid attracting appeals for financial support from other countries which may wish to exercise their right (under Article 50 of the U.N. Charter) to seek relief from the U.N. because of the negative impact on their economies from the U.N. sanctions.
 - ◆ We would try to guide other countries seriously affected by the Gulf crisis toward enhanced financial support facilities available through the IMF and World Bank. (It is not ruled out that we may wish to consider expanding the list of countries receiving exceptional assistance; however, this remains for further consideration).
 - ◆ In this connection, we will actively pursue at the IMF/World Bank Annual Meetings modifications in IMF policies to increase the timely availability of IMF resources (see Tab A).

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PURPOSE OF GULF CRISIS FINANCIAL COORDINATION GROUP

- o Coordinate exceptional financial resources to the front line states and other countries seriously affected by the Gulf crisis.
- o Members of the Coordination Group will together apply political conditionality on both the short- and medium-term assistance in order to ensure a country's compliance with the Iraq sanctions.
- o Assistance for disbursement by end-1990 will be provided on an unconditional economic basis. As we move into 1991, consideration could be given to associating appropriate and realistic economic reform commitments.
 - ♦ In some cases countries may have or wish to pursue regular IMF/World Bank programs. In other cases, however, such programs may be unrealistic and consideration may need to be given to shadow programs or other variations on that approach.
 - ♦ Whatever approach is adopted, it is important to avoid rigid adherence to formal, inflexible linkage to the IMF or World Bank.
- o Facilitate the use of existing and possibly additional financial resources of the IMF and the World Bank as appropriate.
- o Disbursement of these exceptional financial resources is intended to be in reaction to the current Gulf crisis and not designed to address individual countries' underlying balance of payments problems and financing gaps, which must be dealt with by other means and through other channels.

STRUCTURE AND OPERATIONS

The Coordination Group will articulate broad policy guidelines and coordinate assistance to each recipient country. The Group will be chaired by a USG Treasury Department official with a State Department official as deputy chair. Decisions regarding disbursement will be made by donor governments and, in some cases, may involve channeling assistance to specific countries.

The Coordination Group will consist of a Managing Committee and a Secretariat. The Managing Committee will be composed of finance and foreign ministry officials from the United States and other key creditors. U.S. policies presented in the Managing Committee will be developed in the interagency group involving State, Treasury, the NSC, and Defense. U.S. leadership in the decision making process will be assured through USG chairmanship of the Coordination Group.

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The Secretariat will provide technical and analytical support for the Managing Committee and will have no decision making responsibilities.

Membership in Coordination Group

- o United States
- o Saudi Arabia, Kuwait, UAE, Qatar, and Gulf Cooperation Council (GCC).
- o Germany, United Kingdom, Italy, France, Japan, Canada, the EC, Korea and possibly other new creditors.
- o The IMF and World Bank will provide technical advice and analytical support, but would not participate as a full member in deliberations of the Coordination Group.

Initial Meeting of Coordination Group

- o The purpose of the first meeting of the Coordination Group would include:
 - ♦ Agreement on the Managing Committee/Secretariat structure of the Coordination Group.
 - ♦ Agreement on the coordination and measurement of bilateral flows.
 - ♦ Consideration of methods to disburse funds. Among the approaches (in addition to bilateral transfers) to be evaluated would be a common account or support fund.

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- o The Managing Committee will consist of finance ministry and foreign ministry officials from the United States and other key creditors. USG Treasury Department official will chair with a USG State Department official as a deputy chair.
- o The members of the Managing Committee will be the chief point of contact with their governments.
- o The Committee would be expected to operate with Washington-based officials.
- o The Managing Committee will take into consideration analytical and technical advice provided by the IMF and the World Bank.

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- o Based on political guidance provided by authorities from creditor capitals, the Managing Committee will guide disbursements and take into account relevant political considerations which may be relevant.
- o The Managing Committee will, in consultation with their respective authorities:
 - ♦ schedule meetings of the Coordination Group;
 - ♦ analyze and evaluate incremental financial needs of the front line states and of others directly and seriously affected by the Gulf crisis; analyses of the financial needs of recipients will draw on preliminary work done by the USG.
 - ♦ coordinate bilateral and, where appropriate, collective assistance among the recipients based on guidance from the Coordination Group; and
 - ♦ consider, as appropriate, association with IMF/World Bank supported economic reform measures for disbursements in 1991, but avoid rigid adherence to formal, inflexible types of linkages.
- o Monitor utilization of assistance by recipients.
- o Creditor countries may wish to exchange information on the level of financial commitments and disbursements.

Secretariat

- o Based on input from creditor countries, the IMF and World Bank could serve as the Secretariat. Their role will be limited to technical and analytical support.
- o A senior official will be designated by the Coordination Group as Executive Secretary.
- o The Secretariat, in a manner which assures coordinated input from the World Bank and IMF, will develop recommendations concerning economic policy measures so that assistance may support the recipients' stabilization and adjustment objectives.

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ACTION PLAN

- o Technical level meeting between Treasury/State and the Gulf Cooperation Council to be held Sunday, September 23. Secretary Brady hosts lunch for GCC Finance Ministers on Wednesday, September 26.
- o President Bush to announce during speech to the World Bank/IMF Annual Meeting the establishment of the Gulf Crisis Financial Coordination Group, with its first organizational meeting to take place the preceding day.
- o Secretary Brady to discuss the objectives and organizational structure of the Gulf Crisis Financial Coordination Group with the G-7 finance ministers.
- o Secretary Baker to discuss these issues with relevant foreign ministers at the UNGA September 25 - October 2 and at September 26 meetings with G-7 and GCC foreign ministers.
- o Establish calendar for the Managing Committee to meet and begin operations as soon as possible

September 22, 1990

GULF CRISIS FINANCIAL COORDINATION GROUPOBJECTIVES

- o Maintain and support U.N. economic sanctions toward Iraq.
- o Demonstrate international resolve in mobilizing financial assistance for front line states and other countries seriously affected by the Gulf crisis.
- o Establish a loose coordinating process to secure appropriate responsibility-sharing among creditors/donors, encourage an adequate distribution of assistance to individual front line states, and -- for the medium-term -- support economic policy reform where appropriate.
- o The process must ensure that decision-making remains in the hands of creditor governments. The IFIs should, however, be asked to provide analytical and technical advice.
- o Provide a stream-lined, efficient coordinating process, without a new bureaucracy, by having officials of participating governments work closely in Washington.
- o Actively pursue at the IMF/World Bank Annual Meetings modification in IMF policies to increase the timely availability of IMF resources for countries seriously affected by the crisis. (It is not ruled out that we may wish to consider expanding the list of countries receiving exceptional assistance; however, this remains for further consideration.)

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PURPOSE OF GULF CRISIS FINANCIAL COORDINATION GROUP

- o Coordinate exceptional financial resources to the front line states and other countries seriously affected by the Gulf crisis.
- o Members of the Coordination Group will together apply political conditionality on both the short- and medium-term assistance.
- o Assistance for disbursement by end-1990 will be provided on an unconditional economic basis. As we move into 1991, consideration could be given to associating appropriate and realistic economic reform commitments.
 - ♦ In some cases countries may have or wish to pursue regular IMF/World Bank programs. In other cases, however, such programs may be unrealistic and consideration may need to be given to shadow programs or other variations on that approach.
 - ♦ Whatever approach is adopted, it is important to avoid rigid adherence to formal, inflexible linkage to the IMF or World Bank.
- o Facilitate the use of existing and possibly additional financial resources of the IMF and the World Bank as appropriate.
- o Disbursement of these exceptional financial resources is intended to be in reaction to the current Gulf crisis and not designed to address individual countries' underlying balance of payments problems and financing gaps, which must be dealt with by other means and through other channels. At the same time, financial conditionality on other flows (IMF, World Bank and bilateral aid) are not to be affected by this program.

STRUCTURE AND OPERATIONS

The Coordination Group will articulate broad policy guidelines and coordinate assistance to each recipient country. The Group will be chaired by a USG Treasury Department official with a USG State Department official as deputy chair. Decisions regarding disbursement will be made by donor governments and, in some cases, may involve channeling assistance to specific countries.

The Coordination Group will consist of a Managing Committee and a Secretariat. The Managing Committee will be composed of finance ministry and foreign ministry officials from key creditors.

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Membership in Coordination Group

- o United States
- o Saudi Arabia, Kuwait, UAE, Qatar, and the Gulf Cooperation Council (GCC).
- o Germany, United Kingdom, Italy, France, Japan, Canada, the EC, Korea and possibly other new creditors.
- o The IMF and World Bank will provide technical advice and analytical support.

Initial Meeting of Coordination Group

- o The purpose of the first meeting of the Coordination Group would include:
 - ♦ Agreement on the Managing Committee/Secretariat structure of the Coordination Group.
 - ♦ Agreement on the coordination and measurement of bilateral flows.
 - ♦ Consideration of methods to disburse funds. Among the approaches (in addition to bilateral transfers) to be evaluated would be a common account or support fund.

Managing Committee

- o The Managing Committee will consist of finance ministry and foreign ministry officials from the United States and other key creditors. A USG Treasury Department official will chair and a USG State Department official will serve as deputy chair.
- o The members of the Managing Committee will be the chief point of contact with their governments.
- o The Committee would be expected to operate with Washington-based officials.
- o The Managing Committee will take into consideration analytical and technical advice provided by the IMF and the World Bank.
- o Based on guidance provided by authorities from creditor capitals, the Managing Committee will guide disbursements and take into account political considerations which may be relevant.

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- o The Managing Committee will, in consultation with their respective authorities:
 - ♦ schedule meetings of the Coordination Group;
 - ♦ analyze and evaluate incremental financial needs of the front line states and of others directly and seriously affected by the Gulf crisis; analyses of the financial needs of recipients will draw on preliminary work done by the USG.
 - ♦ coordinate bilateral and, where appropriate, collective assistance among the recipients based on guidance from the Coordination Group; and
 - ♦ consider, as appropriate, association with IMF/World Bank supported economic reform measures for disbursements in 1991, but avoid rigid adherence to formal, inflexible types of linkages.
- o Monitor utilization of assistance by recipients.

Secretariat

- o Based on input from creditor countries, the IMF and World Bank could serve as the Secretariat. Their role will be limited to technical and analytical support.
- o A senior official will be designated by the Coordination Group as Executive Secretary.
- o The Secretariat, in a manner which assures coordinated input from the World Bank and IMF, will develop recommendations concerning economic policy measures so that assistance be consistent with and support the recipients' stabilization and adjustment objectives.

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
03. Memo	Timothy E. Deal to Brent Scowcroft Re: Gulf Crisi Financial Coordination Group (2 pp.)	9/27/90	(b)(1), P-5	C

Collection:

Record Group: Bush Presidential Records

Office: National Security Council

Series: Lundsager, Meg

Subseries: Subject File

WHORM Cat.:

File Location: GCFCG (Gulf Crisis Financial Coordination Group) [2]

Date Closed: 11/9/2007 **OA/ID Number:** CF00756-009

FOIA/SYS Case #: 1998-0099-F

Re-review Case #:

P-2/P-5 Review Case #:

AR Case #:

AR Disposition:

AR Disposition Date:

Appeal Case #:

Appeal Disposition:

Disposition Date:

MR Case #:

MR Disposition:

MR Disposition Date:

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

~~PRM. Removed as a personal record misfile.~~

Freedom of Information Act - [5 U.S.C. 552(b)]

(b)(1) National security classified information [(b)(1) of the FOIA]
(b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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04. Memo with Attachment	Re: Impact of Economic Sanctions on Key Countries (10 pp.)	8/18/90	(b)(1), P-5	S

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Office: National Security Council
Series: Lundsager, Meg
Subseries: Subject File
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GULF CRISIS FINANCIAL COORDINATION GROUP

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Mutual Support Fund

Questions:

1. Would U.S. contribute new monies or just use fund to disburse previously committed (but perhaps accelerated) aid?

- Smoke out State opposition - related to 150 account?
- This fund would not cover U.S. costs, just front line and maybe other affected countries. Thus it may be awkward to approach other donors for large new sums and not contribute anything additional ourselves.

2. Could fund be set up that quickly, so that disbursements to countries could materialize by end September?

3. Point presented as advantage is that "pool" avoids question of who is giving to whom. However, most donors like to be identified as the source for political reasons. They might be even more so inclined in this situation.

- Who determines how much is given to which country?
- Saudi aid (cash gifts to Egypt and others) has typically been done very privately.
- What do we do about Congressional earmarking? We can't upset that without approval from Congress.

4. In its favor, paper stresses this would be means of pushing for concessionality - the front line states certainly do not need loans, but grants. This multilateral approach may help in pressing the Japanese - who tend to favor trade credits.

5. Also, paper emphasizes shadow IMF programs that would not involve much conditionality but could lead to Paris Club reschedulings. This would be helpful in short run (of course in medium-term we are not addressing fundamental economic problems of countries such as Egypt but that is a low priority right now).

On balance - it may help to multilateralize approach and set up a coordinating mechanism. U.S. coordinates with people running this fund and avoids having to go around the world many times drumming up support.

Still have reservations that this may be way for countries to hide a bit from their responsibilities. And that Japanese in best bureaucratic tradition may not react quickly to fund idea. We may still have to keep bilateral heat on them.

DISCUSSION PAPER

FINANCING APPROACH FOR COUNTRIES SERIOUSLY AFFECTED BY GULF CRISIS

I. FRONT LINE STATES -- EGYPT, JORDAN, TURKEY

A. General Approach

- o Funding would be divided into short-term and medium-term.
 - Short-term would cover September-December 1990. This would satisfy the need to do something immediately to stem the bleeding.
 - Medium-term would cover 1991. This would allow for a more measured approach when we know more about the problem.

B. Short-Term

- o Short-term needs (1990) may total up to \$2.8 billion.
- o Raise immediate funds to meet short-term needs from the following sources:

Saudi Arabia	Japan
UAE	Germany
Kuwait	Other European Countries
	Korea
	Taiwan

- o Funds would be in the form of grants, in-kind assistance, or concessional "soft" loans.
 - Disburse beginning no later than September 30 to finance economic costs of crisis for Egypt, Jordan and Turkey for the balance of 1990.
 - Attached table outlines possible burden-sharing for short-term (as well as medium-term) funding. 65% Gulf states, 15% Japan, 10% FRG/EC and 10% Taiwan/Korea.
- o Coordination

Short-term funds would be raised and disbursed through bilateral channels, within an overall coordinated effort.

 - Could be coordinated under U.S. leadership without formal organization or institutional links.

- Alternatively, could form and coordinate through a Gulf Crisis Coordinating Committee (GCCC) of Arab and Western membership. This may better ensure a sense of ownership and that commitments are implemented.
- Both approaches permit the emergency assistance process to get up and running quickly.

C. Medium-Term

- o Medium-term needs may total up to \$6.3 billion.
- o Donors would be the same as above.
- o Assistance will involve grants, concessional loans or export credits. Commitments no later than October 15, disbursements begin January 1, 1991.
- o Coordination: Could be coordinated like short-term assistance with minimal institutional linkages, but there are major advantages to establishment of a common fund.

Mutual Support Fund (MSF)

- Would have political visibility, sign of U.S. leadership in proposing and playing a lead role in coordinating the Fund.
- Could provide effective framework for insuring full and properly distributed funding, and adequate concessionality.
- Could also provide donors with a neutral coordinating point.
- "Pool" approach avoids questions of who is giving to whom.

If a Fund is created, location is a question:

Options

1. A regional/Arab institution
 - Could have appeal to some Arabs, although they traditionally have avoided placing funds in such institutions.
 - Japan/Europe unlikely to be attracted.

2. A known, established multilateral institution (IMF/World Bank/BIS).

-- Arabs have long experience with and confidence in the IMF and the World Bank. In 1970s and early 1980s, they lent approximately \$20 billion to these organizations for on-lending.

-- European/Japanese will also prefer IMF/World Bank or BIS.

3. Some division of funds between an Arab and an established multilateral institution (i.e., a combination of options 1 & 2 above).

D. Shadow Programs. Medium-term (1991) funds could be based on traditional IMF/World Bank programs. However, conditionality may be too rigorous. Accordingly, medium-term funds could be based on shadow or soft IMF/World Bank programs.

-- This would recognize limited scope for economic policy changes in current circumstances while assuring creditors that money has some long-term economic benefits.

-- Would also provide basis for Paris Club rescheduling.

-- Could also trigger some IMF/World Bank lending.

II. APPROACH TO DEAL WITH OTHER COUNTRIES/SYSTEMIC PROBLEMS

It will be important to develop arrangements to help other countries cope with the costs of the Gulf Crisis:

o A sustained oil price increase could undermine the Eastern European countries' fragile adjustment programs.

o Pakistan, Morocco, India, and the Philippines, are also vulnerable to high oil prices.

Although we should maintain the focus of our special efforts on the Front Line states, some donors may wish to extend the MSF to some of these other countries. In order to meet that concern -- which we also share -- we should take steps to assist these and other countries that have been particularly affected by the Gulf crisis.

- o Some steps will be country/region specific -- e.g., approaching the Soviets on the 1991 oil issue for Eastern Europeans.
- o We could take other broad-based steps as well.
 - IMF Access. Increase or waive IMF access (lending) limits for one year for all seriously affected countries.
 - Streamline/activate the IMF's Compensatory and Contingency Financing Facility (CCFF).
 - Activate/facilitate World Bank loans.
- o President Bush could formally propose these measures at IMF/World Bank meeting (September 25, 1990).

Based on above approach in funding operation, individual Front Line states would be approached as follows:

Egypt

- Short-term resources provided immediately for balance of 1990.
- Egypt and IMF agree that Egypt's desire for an IMF program that would trigger a Paris Club rescheduling is best met by a soft shadow program to be agreed within 30 days.
 - .. Shadow program to be built around current policy commitments.
 - .. Would trigger Paris Club in October.
 - .. Would be basis for "Friends of Egypt" operation.
- Seek Congressional authority to forgive U.S. FMS debt.
- World Bank to release funds for loans presently under negotiation against agreement on shadow program.
- Egypt and IMF agree in principle in the shadow program to beef up IMF program after Gulf crisis is resolved.
- IMF puts in medium term money.

Turkey

- Short-term resources provided immediately for balance of 1990.

- Conclude IMF Article IV negotiations presently underway by end of September.
- World Bank to disburse funds on loans presently under negotiation as soon as Article IV review is concluded (October 1990).
- Consider U.S. FMS debt forgiveness when Article IV review is concluded and World Bank is disbursing funds.

Jordan

- Short term resources provided immediately for balance of 1990.
- 1991 resources come on stream with a regular IMF program or a shadow program, whichever is feasible (an IMF program was established in 1989).
- World Bank moves loans early 1991.

TABLE 1

HYPOTHETICAL BURDEN-SHARING FOR FINANCING ARRANGEMENTS

(To Meet the Short-term (1990) and Medium-term (1991) Needs
of the Front Line States: Egypt, Jordan, Turkey)
(\$ Billions)

Total Costs for Front Line States = Up to \$9.1 Billion*

<u>DONOR</u>				
<u>Gulf</u>	<u>Japan</u>	<u>FRG/EC</u>	<u>Taiwan/ Korea</u>	<u>Total</u>
<u>(65%)</u>	<u>(15%)</u>	<u>(10%)</u>	<u>(10%)</u>	<u>100%)</u>
\$5.9	\$1.4	\$0.9	\$0.9	\$9.1

Short-Term (1990) - Total Costs Up to \$2.8 Billion
(\$ Billions)

<u>DONOR</u>				
<u>Gulf</u>	<u>Japan</u>	<u>FRG/EC</u>	<u>Taiwan/ Korea</u>	<u>Total</u>
<u>(65%)</u>	<u>(15%)</u>	<u>(10%)</u>	<u>(10%)</u>	<u>(100%)</u>
\$1.8	\$0.4	\$0.3	\$0.3	\$2.8

Medium-Term (1991) - Total Costs Up to \$6.3 Billion
MUTUAL SUPPORT FUND (MSF)
(\$ Billions)

<u>DONOR</u>				
<u>Gulf</u>	<u>Japan</u>	<u>FRG/EC</u>	<u>Taiwan/ Korea</u>	<u>Total</u>
<u>(65%)</u>	<u>(15%)</u>	<u>(10%)</u>	<u>(10%)</u>	<u>(100%)</u>
\$4.1	\$1.0	\$0.6	\$0.6	\$6.3

*Costs calculated on the basis of \$25 bbl oil

TABLE 2

HYPOTHETICAL BURDEN-SHARING FOR FINANCING ARRANGEMENTS

(To Meet the Short-term (1990) and Medium-term (1991) Needs
of the Front Line States: Egypt, Jordan, Turkey)
(\$ Billions)

Total Costs for Front Line States = Up to \$10.2 Billion*

DONOR				
<u>Gulf</u>	<u>Japan</u>	<u>FRG/EC</u>	<u>Taiwan/ Korea</u>	<u>Total</u>
<u>(65%)</u>	<u>(15%)</u>	<u>(10%)</u>	<u>(10%)</u>	<u>(100%)</u>
\$6.6	\$1.6	\$1.0	\$1.0	\$10.2

Short-Term (1990) - Total Costs Up to \$3.2 Billion
(\$ Billions)

DONOR				
<u>Gulf</u>	<u>Japan</u>	<u>FRG/EC</u>	<u>Taiwan/ Korea</u>	<u>Total</u>
<u>(65%)</u>	<u>(15%)</u>	<u>(10%)</u>	<u>(10%)</u>	<u>(100%)</u>
\$2.1	\$1.5	\$0.3	\$0.3	\$4.2

Medium-Term (1991) - Total Costs Up to \$7.0 Billion
MUTUAL SUPPORT FUND
(\$ Billions)

DONOR				
<u>Gulf</u>	<u>Japan</u>	<u>FRG/EC</u>	<u>Taiwan/ Korea</u>	<u>Total</u>
<u>(65%)</u>	<u>(15%)</u>	<u>(10%)</u>	<u>(10%)</u>	<u>(100%)</u>
\$4.5	\$2.2	\$0.7	\$0.6	\$8.0

* Costs calculated on the basis of \$11 million

TALKING POINTS
APPROACH TO FINANCING AND ECONOMIC ASSISTANCE
FOR COUNTRIES SERIOUSLY AFFECTED BY GULF CRISIS

Introduction

As I have stated, believe we should focus our efforts on the front line states (Egypt, Jordan, and Turkey).

We have looked closely at the costs to the front line states of Iraq's invasion of Kuwait.

- o They involve a wide range of factors, including
 - lost exports
 - lost transit fees
 - lost worker remittances and tourist earnings, and
 - higher oil import bills
- o In addressing these consequences, it is important to differentiate between the short- and medium-term needs of the seriously affected countries.

Short-term

Short-term would cover costs through the end of 1990.

- o Must address the immediate need to stem the bleeding. Should move quickly, disbursing no later than end-September.

Estimate short-term needs may total up to \$2.8 billion.

- o Should focus on emergency/refugee assistance, food aid, oil needs and short-term cash.
- o Needs could be met by disbursements of funds through bilateral channels in form of grants, in-kind assistance, or concessional loans.
- o Support from the multilateral institutions could play a role, but we should not focus on their role to cover 1990 costs.

Medium-term

Estimate medium-term needs may total up to \$6.3 billion for the front line states.

- o Medium-term assistance could take form of grants, concessional loans and export credits.
- o Important that we commit no later than mid-October to be in a position to make disbursement by end-year.
- [o Could simply continue loosely coordinated bilateral efforts.
 - Would build on short-term efforts for 1990
- o Alternatively, financing could be placed in a common pool or fund with an existing institution, such as the IMF/World Bank/BIS.
- o Such a Mutual Support Fund (MSF) could help ensure full and properly distributed funding, adequate concessionality, and a neutral coordinating point.]
- [o M/T funds could also be channeled bilaterally. But we believe M/T funds can best be coordinated by establishing a common fund, a Mutual Support Fund (MSF).
 - Could provide effective framework for insuring full and properly distributed funding, and adequate concessionality.
 - Could also provide donors with a neutral coordinating point.
- o Mutual Support Fund (MSF) could be located in a regional/Arab institution or a multilateral institution such as IMF/World Bank/BIS.
 - We all have long experience in channeling funds through these multilateral institutions.]
- o Apart from question of location/coordination of funds is question of economic policies:
 - Medium-term (1991) funds could be based on traditional IMF/World Bank programs. However, conditionality may be too rigorous. Accordingly, medium-term funds could be based on shadow or soft IMF/World Bank programs.
 - This would recognize limited scope for economic policy changes in current circumstances while assuring creditors that money has some long-term economic benefits.
 - Would also provide basis for Paris Club rescheduling
 - Could also trigger some IMF/World Bank lending.

Let me say a few words about how the short and medium term approaches could work in the front line states.

- o Egypt faces short term needs up to \$900 million, and medium term needs of approximately \$2.1 billion.
 - We should mobilize immediate bilateral cash assistance, in-kind support, food aid, and refugee relief.
 - We should seek an agreement between Egypt and the IMF within the next month.
 - Could be a "shadow" program based primarily on current policy commitments.
 - Alternatively could ^{be} a standard IMF program, although unclear how practical that is under current circumstances.
 - In either case, this would enable a Paris Club rescheduling and provide basis for an operation to close the underlying financing gap.
 - We will call this a "Friends of Egypt" operation.
 - The World Bank should also step up lending on the basis of shadow or regular program.
- o Jordan faces immediate needs of \$500-600 million and medium term needs of \$1.5 billion. Provided Jordan supports sanctions:
 - We could move to meet critical replacement fuel and crude oil needs, providing them perhaps free of FOREX outlay.
 - Bilateral cash assistance will also be needed.
 - In the medium term, Jordan and the IMF could develop a regular Fund program or a shadow program.
 - This should support further World Bank lending early in 1991.
- o Turkey faces immediate increased costs of up to \$1.4 billion and medium term costs of \$2.7 billion.
 - o In terms of immediate needs, Gulf states could pick up increased oil costs and some aid.

Conclusion:

I would appreciate any thoughts you have on these ideas.

Believe it is critical we move expeditiously in developing and implementing our approach.

- o We all have a stake in a successful resolution of the crisis: politically, economically, and in terms of national security.
- o U.S. is bearing major part of the burden through our military presence and ongoing bilateral and multilateral financial support for front line and other affected states.
- o We would look to the Gulf states to finance roughly 65 percent of the increased costs.
- o Within the remaining amounts, we would hope that Japan could finance roughly 15 percent, with Europe (EC, Germany) and perhaps Korea financing the balance.
- o Our specialists could follow up on the details.

GCFCG (Gulf Crisis Financial Coordination Group) [2], [OA/ID CF00756-009]. n.d. MS Records of the Persian Gulf War: Records of the Persian Gulf War Collection. George H.W. Bush Presidential Library. Archives Unbound, link.gale.com/apps/doc/SC5101219084/GDSC?u=uagm&sid=GDSC&xid=6395cf34&pg=10. Accessed 14 Apr. 2021.